

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Alcona County Road Commission	County Alcona
Fiscal Year End December 31, 2007	Opinion Date May 1, 2008	Date Audit Report Submitted to State May 19, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

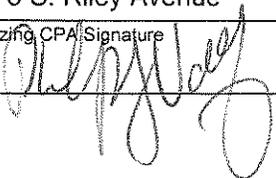
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952		
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI	Zip 49788
Authorizing CPA Signature 		Printed Name Phillip J. Wolf, CPA		License Number 1101017275

Alcona County Road Commission

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

ALCONA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Richard A. Karsen, Sr.
Chairman

Alfred J. Scully
Vice Chairman

Everett M. Schram
Member

Ronald A. Young, P.E.
Engineer/Manager

Patricia Kollien
Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Alcona County
301 N. Lake Street
Lincoln, MI 48742

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Alcona County Road Commission (a component unit of the County of Alcona, Michigan) as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of the Alcona County Road Commission as of December 31, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2008 on our consideration of the Alcona County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcona County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 1, 2008

Management's Discussion and Analysis

Using This Annual Report

The Alcona County Road Commission's Management's Discussion and Analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 27% from \$9.6 million to \$12.2 million for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

It is important for the reader to realize that the increase in net assets is largely a result of the Road Commission reporting infrastructure assets from prior years and the current year in accordance with GASB Statement Number 34.

Net assets as of the year ended December 31, 2006 and 2007 are as follows:

	<u>Governmental Activities</u> <u>2006</u>	<u>Governmental Activities</u> <u>2007</u>
Current and Other Assets	\$ 1,859,839	\$ 1,868,730
Capital Assets	<u>10,125,212</u>	<u>12,225,058</u>
Total Assets	<u>\$ 11,985,051</u>	<u>\$ 14,093,788</u>
Current Liabilities	\$ 1,020,901	\$ 1,236,680
Long-Term Obligations	<u>1,340,739</u>	<u>608,376</u>
Total Liabilities	<u>2,361,640</u>	<u>1,845,056</u>
Net Assets		
Invested in Capital Assets, net of debt	8,689,351	11,268,195
Restricted for County Roads	<u>934,060</u>	<u>980,537</u>
Total Net Assets	<u>\$ 9,623,411</u>	<u>\$ 12,248,732</u>

A summary of changes in net assets for the year ended December 31, 2006 and 2007 are as follows:

	<u>Governmental Activities</u> <u>2006</u>	<u>Governmental Activities</u> <u>2007</u>
Program Revenues		
Charges for Services	\$ 483,978	\$ 621,106
Operating Grants	2,493,633	2,491,007
Capital Grants	2,093,634	2,834,298
Investment Earnings and Other	53,332	34,865
General Revenues		
Recoveries and Other	113,477	13,886
Gain(Loss) on Disposals	<u>(5,578)</u>	<u>-</u>
 Total Revenues	 <u>5,232,476</u>	 <u>5,995,162</u>
 Program Expenses		
Primary Roads	878,415	1,104,492
Local Roads	1,322,173	1,411,726
State Trunkline		
Maintenance	463,668	461,981
Net Equipment Expense	215,474	(1,364)
Administrative	300,493	319,262
Interest Expense and Other	<u>15,688</u>	<u>73,744</u>
 Total Expenses	 <u>3,195,911</u>	 <u>3,369,841</u>
 Changes in Net Assets	 2,036,565	 2,625,321
 Net Assets – Beginning	 <u>7,586,846</u>	 <u>9,623,411</u>
 Net Assets – Ending	 <u>\$ 9,623,411</u>	 <u>\$ 12,248,732</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes only.

For the year ended December 31, 2007, the fund balance as listed on page 13 of the general operations fund increased by \$74,276 as compared to a decrease of \$19,148 in the fund balance for the prior year. Total revenues were \$5,995,162, a decrease of \$242,892 as compared to last year. This change in revenues resulted primarily from an increase in federal funding and a decrease in infrastructure loans for specific projects.

Total expenditures were 5,920,886, a decrease of \$336,316 as compared to last year. This change in expenditures is primarily a decrease in road preservation and bridge costs.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2007 was lower than the actual receipts by \$141,555. This was due, in a large part, to the projection of road participation by townships and charges for services. Major improvements to county roads are undertaken on a cost participation basis with Alcona County's 11 townships. However, in setting the budget it is difficult to project what projects townships may wish to pursue in the coming year. However, State Trunkline Maintenance revenues exceeded the expected amount due to higher than anticipated winter maintenance expenses.

Road Commission expenditures were projected at \$6,053,034 while actual expenditures were \$5,920,886. This resulted in total expenditures under budget by \$132,148. There were two items that account for most of the variance in the projection of the budget. This share of the variance is in the area of primary and local road preservation and structural improvement costs. Road Commission staff projected that work on several major projects would be higher than actual costs.

The major primary road improvements undertaken in 2007 were:

- 1) Reconstruction of Hubert Road in Caledonia Township which was funded with a combination of Federal Surface Transportation Funds and contributions from Caledonia Township.
- 2) Reconstruction of F-30 from F-41 to Wice Road that was funded with Michigan Transportation Economic Development Funds and contributions from Mikado and Greenbush Townships.
- 3) Reconstruction of two portions of Mt. Maria Road that were funded by Michigan Local Jobs Today loans and grant funds and contributions from Alcona and Hawes Township. These projects were originally scheduled for 2008 but advanced to 2007 under the Michigan Local Jobs Today program.

Capital Assets and Debt AdministrationCapital Assets

As of December 31, 2006 and 2007, the Road Commission had the following amounts invested in capital assets as follows:

	<u>2006</u>	<u>2007</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 2,963,029	\$ 4,668,684
Other Capital Assets		
Buildings and Improvements	729,693	780,779
Road Equipment	4,644,389	4,644,389
Other Equipment	139,496	139,496
Depletable Assets	95,995	95,995
Infrastructure and Improvements	<u>8,984,435</u>	<u>10,113,078</u>
Total Capital Assets at Historic Cost	<u>14,594,008</u>	<u>15,773,737</u>
Total Accumulated Depreciation	<u>(7,431,825)</u>	<u>(8,217,363)</u>
Total Net Capital Assets	<u>\$ 10,125,212</u>	<u>\$ 12,225,058</u>

Prior and current year's major additions included the following:

Bridge Reconstruction	\$ 665,026	\$ -
Land Improvements	\$ 1,401,549	\$ 1,705,655
Various Resurfacing Projects	\$ 1,333,626	\$ 1,128,643
Trucks/Equipment/Buildings	<u>\$ 147,840</u>	<u>\$ 51,086</u>

Debt Administration

The Road Commission currently has long-term debt in the amount of \$1,174,268 which represents infrastructure construction projects, installment purchase agreements for heavy equipment, and vested employee benefits. Additionally, the commission obtained a State Infrastructure Bank loan in the amount of \$1,000,000 during 2006 of which \$570,272 remains due at year end.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 70% of its revenues from the Michigan Transportation Fund or MTF. The MTF consist of state collected fuel taxes and vehicle registration fees. The portion of MTF that is distributed to county road commissions by the State of Michigan is based on such factors as mileage and population. Because of its limited population, Alcona County ranks 72nd of 83 counties in Michigan in MTF fund allocations. The recent economic downturn has resulted in less consumption of fuel and some diversion of MTF revenues to other Michigan Departments; consequently, fewer Michigan Transportation Funds are available for distribution. The 2008 budget assumes MTF funds will be 2% less than 2007.

From 2004 through 2007 MTF revenues for the Alcona County Road Commission have declined 5.4% or \$141,980. In addition to declining MTF revenue, a major concern of the road commission is the cost of all materials needed for road operations which have increased as follows since 2004: Sealcoat Stone +25%, Asphalt Patch +46%, Steel Culverts +47%, Steel Underbody Blades +59%, Asphalt +57%, Asphalt Emulsion +101%, and Diesel Fuel +194%.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Alcona County's 727 mile transportation system. Therefore, the Board attempts to manage the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Continued declining revenue and increased costs have compelled a number of reductions for 2008 including continuation of a hiring freeze implemented in 2007, reduced purchases of materials and contract services, and no significant equipment replacements, all of which will adversely impact future services.

There are no major road improvement projects planned for 2008. Federal assisted projects originally planned for 2008 were advanced to 2007 under the Michigan Local Jobs Today Program. Various minor road improvement projects are anticipated in 2008 pending negotiations with individual townships.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alcona County Road Commission administrative offices at 301 N. Lake Street, PO Box 40, Lincoln, Michigan 48742 or by phone 989-736-8168, or by email at Alcona00@chartermi.net.

Basic Financial Statements

Alcona County Road Commission

Statement of Net Assets December 31, 2007

ASSETS

Current Assets:

Cash and Equivalents	\$	605,429
Accounts Receivable:		
Michigan Transportation Fund		379,355
Trunkline Maintenance		68,668
State Other		439,186
Due from Other Units		101,991
Sundry Accounts		3,990
Special Assessments		8,435
Inventories:		
Road Materials		156,064
Equipment, Parts and Materials		105,612
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation)		<u>12,225,058</u>
Total Assets	\$	<u>14,093,788</u>

LIABILITIES

Current Liabilities:

Accounts Payable	\$	87,770
Due to Other Units		58,411
Accrued Liabilities		32,376
Advances from State		151,964
Deferred Revenue		135,709
Interest Payable		5,200
Contingent Loan Commitments		199,358
Installment Purchase Agreements Payable		565,892
Noncurrent Liabilities:		
Vested Employee Benefits		222,605
Installment Purchase Agreements Payable		<u>385,771</u>
Total Liabilities		<u>1,845,056</u>

NET ASSETS

Invested in Capital Assets -		
Net of Related Debt	\$	11,268,195
Restricted for County Roads		<u>980,537</u>
Total Net Assets	\$	<u>12,248,732</u>

Alcona County Road Commission

Statement of Activities For the Year Ended December 31, 2007

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,104,492
Local Road Maintenance and Preventive Maintenance	1,411,726
State Trunkline Maintenance	461,981
Net Equipment Expense	(1,364)
Net Administrative Expense	319,262
Compensated Absences	27,799
Interest Expense	<u>45,945</u>
Total Program Expenses	<u>3,369,841</u>
Program Revenues:	
Charges for Services:	
Charges for Services	607,806
Contributions from Other Units	13,300
Operating Grants and Contributions:	
Michigan Transportation Funds	2,491,007
Investment Earnings	34,865
Capital Grants and Contributions:	
Federal Grants	943,637
State Grants	748,740
Contributions from Local Units	<u>1,141,921</u>
Total Program Revenues	<u>5,981,276</u>
Net Program Revenues	<u>5,981,276</u>
General Revenue	
Insurance Recoveries and Other	<u>13,886</u>
Total General Revenues	<u>13,886</u>
Changes in Net Assets	2,625,321
Net Assets	
Beginning of Year	<u>9,623,411</u>
End of Year	<u>\$ 12,248,732</u>

Alcona County Road Commission

Balance Sheet December 31, 2007

	<u>Governmental Fund Type General Operating Fund</u>
<u>ASSETS</u>	
Cash and Equivalents	\$ 605,429
Accounts Receivable	
Michigan Transportation Fund	379,355
State Trunkline Maintenance	68,668
State Other	239,828
Due from Other Units	101,991
Sundry Accounts	3,990
Special Assessments	8,435
Inventories	
Road Materials	156,064
Equipment, Parts, and Materials	<u>105,612</u>
Total Assets	<u>\$ 1,669,372</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 87,770
Due to Other Units	58,411
Accrued Liabilities	32,376
Advances from State	151,964
Deferred Revenue	<u>135,709</u>
Total Liabilities	<u>466,230</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,203,142</u>
Total Fund Equities	<u>1,203,142</u>
Total Liabilities and Fund Equities	<u>\$ 1,669,372</u>

Alcona County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2007

Total Governmental Fund Balance	\$ 1,203,142
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,225,058
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(1,174,268)
Interest expense accrual, due in following year.	<u>(5,200)</u>
Net Assets of Governmental Activities	<u>\$ 12,248,732</u>

**Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended December 31, 2007**

	<u>General Operating Fund</u>
Revenues	
License and Permits	\$ 10,890
Federal Sources	943,637
State Sources	3,239,747
Contributions from Local Units	1,155,221
Charges for Services	596,916
Interest and Rents	40,510
Other Revenue	<u>8,241</u>
Total Revenues	<u>5,995,162</u>
Expenditures	
Public Works	5,671,559
Capital Outlay	(275,616)
Debt Service	<u>524,943</u>
Total Expenditures	<u>5,920,886</u>
Excess of Revenues Over (Under) Expenditures	74,276
Fund Balance – January 1, 2007	<u>1,128,866</u>
Fund Balance – December 31, 2007	<u>\$ 1,203,142</u>

Alcona County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2007

Net Change in Fund Balance – Total Governmental Funds	\$ 74,276
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	2,099,846
Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Loan proceeds provide current resources to governmental funds, but increases liabilities in the statement of net assets.	478,998
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<u>(27,799)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,625,321</u>

**Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007**

	<u>Pension Trust Fund</u>
ASSETS:	
Cash & Investments	
Restricted	\$ <u>904,627</u>
 TOTAL ASSETS	 \$ <u><u>904,627</u></u>
 NET ASSETS:	
Held in Trust for Pension Benefits	\$ <u><u>904,627</u></u>

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2007**

	<u>Pension Trust Fund</u>
ADDITIONS:	
Contributions:	
Employer	\$ <u>70,197</u>
Investment Earnings:	
Interest & Dividend Income	57,524
Net Appreciation (Decline) in Fair Value	<u>(157)</u>
Total Investment Earnings	<u>57,367</u>
Total Additions	<u>127,564</u>
DEDUCTIONS:	
Distributions of Benefits	<u>62,705</u>
Total Deductions	<u>62,705</u>
Changes in Net Assets	64,859
Net Assets – Beginning of Year	<u>839,768</u>
Net Assets – End of Year	<u>\$ 904,627</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alcona County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Alcona County Road Commission.

A. Reporting Entity

The adoption of a county road system was authorized by Act 283 of 1909 (MCL 224.1). On June 24th, 1919, the Board of Supervisors for Alcona County adopted a resolution for a special election on August 28th to decide "Shall the County Road System be adopted by the County of Alcona." On August 28th, 1919, voters of Alcona County approved adoption of the County Road System on a vote of 589 yes and 322 no. The first Board of Road Commissioners was appointed by the Board of Supervisors on October 15th, 1919. The County Road Commission operates under a Board of County Road Commissioners of three (3) members which appoints a manager/engineer to administer the county road system. The Board of County Road Commissioners is elected biannually for the full term of six (6) years. The Road Commission services public roads throughout the County of Alcona, Michigan. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Alcona County Road Commission, a discretely presented component unit of Alcona County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Alcona County Road Commission. There is only one major fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the only major fund of the Commission.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost as are investments.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Alcona County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 allows major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Alcona County Road Commission has capitalized qualifying road improvements since 2004 forward. The Road Commission may capitalize roads retroactively until December 31, 2008, should it choose to do so. In 2005, the Road Commission capitalized all Bridge Projects retroactively. The Alcona County Road Commission has capitalized the current year and prior year's infrastructure, as required by GABS Statement 34, and has reported the infrastructure assets in the statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Land Improvements	3 to 20 years
Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Special Assessments

The Commission collects special assessments from adjacent property owners for improvements to Fawn Drive in Deer View Subdivision, Hawes Township. The assessments are a fixed amount of \$ 8,333 per year plus interest and expire in 2009.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (manager) and fiscal officer prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows as listed on page 28.

NOTE 3 - CASH AND DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the Commission's \$238,654 of investments, \$238,654 are not in the name of the Commission, but in the name of the agent or Alcona County. Investing activities are performed in accordance with the County of Alcona's investment policy. Credit quality ratings of public money funds were not available from the financial institutions or are unrated.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$151,314 of the Commission's bank balance of \$317,006 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Alcona County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Alcona County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Alcona County Road Commission’s financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Alcona County Road Commission for the current year was as follows:

	Beginning Balances 01/01/07	Additions	Adjustments/ Deductions	Ending Balances 12/31/07
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 91,689	\$ -	\$ -	\$ 91,689
Land Improvements - Infrastructure	<u>2,871,340</u>	<u>1,705,655</u>	<u>-</u>	<u>4,576,995</u>
Subtotal	<u>2,963,029</u>	<u>1,705,655</u>	<u>-</u>	<u>4,668,684</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	65,691	-	-	65,691
Buildings	664,002	51,086	-	715,088
Road Equipment	4,644,389	-	-	4,644,389
Shop Equipment	61,174	-	-	61,174
Office Equipment	69,784	-	-	69,784
Engineers’ Equipment	8,538	-	-	8,538
Depletable	95,995	-	-	95,995
Infrastructure - Bridge	5,735,227	-	-	5,735,227
Infrastructure – Roads	<u>3,249,208</u>	<u>1,128,643</u>	<u>-</u>	<u>4,377,851</u>
Subtotal	<u>14,594,008</u>	<u>1,179,729</u>	<u>-</u>	<u>15,773,737</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/07	Additions	Adjustments/ Deductions	Ending Balances 12/31/07
<i>Less Accumulated Depreciation</i>				
Land Improvements	65,691	-	-	65,691
Buildings	428,564	24,374	-	452,938
Road Equipment	3,907,039	294,856	-	4,201,895
Shop Equipment	52,032	2,405	-	54,437
Office Equipment	55,106	4,282	-	59,388
Engineers' Equipment	7,218	785	-	8,003
Depletable	95,995	-	-	95,995
Infrastructure - Bridges	2,518,216	141,212	-	2,659,428
Infrastructure – Roads	<u>301,964</u>	<u>317,624</u>	-	<u>619,588</u>
Subtotal	<u>7,431,825</u>	<u>785,538</u>	-	<u>8,217,363</u>
Net Capital Assets Being Depreciated	<u>7,162,183</u>	<u>394,191</u>	-	<u>7,556,374</u>
Total Net Capital Assets	<u>\$ 10,125,212</u>	<u>\$ 2,099,846</u>	<u>\$ -</u>	<u>\$ 12,225,058</u>

Depreciation expense as charged to operations of the Alcona County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 221,989
Local Road Maintenance and Preventive Maintenance	236,847
Net Equipment Expense	294,856
Net Administrative Allocated	<u>5,067</u> <u>26,779</u>
Total Depreciation Expense	<u>\$ 785,538</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

The Alcona County Road Commission contributes to the Alcona County Road Commission Retirement Plan, which is a defined contribution pension plan, fully funded through American Funds. The Board of Road Commissioners is the trustee of the plan and therefore the activity of the plan is presented as a pension trust fund.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant’s account, the returns earned on investments of those contributions, and forfeitures of other participant’s benefits that may be allocated to such participant’s account. Contributions made by the Road Commission are vested at 100% immediately. The Road Commission is required to contribute an amount equal to 4% of the employee’s gross earnings. Effective November 14, 2005, this contribution was increased to 5% in accordance with Article 11 of a new labor agreement negotiated with Teamsters Local 214. Effective July 2006, the contribution rate increased to 6.5%. Employees are not required to make contributions. The Road commission made contributions in 2007 totaling \$70,197 based on employee wages of \$1,179,510. There are currently 31 employees included in the plan.

The Alcona County Road Commission Retirement Plan held no securities in or loans to parties related to the plan. The financial information for the pension plan was available through the American Funds annual statement as of December 31, 2007 for presentation in the basic financial statements.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2007, the federal aid received and expended by the Road Commission was \$943,637 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (included in MDOT’s single audit). Local federal force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more in federal funds.

NOTE 8 - LONG-TERM DEBT

The follow is a summary of pertinent information concerning the County Road Commission’s long-term debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
State Infrastructure Bank Loan, principal due in annual installments of \$201,609, interest payments at rate of 3%, due 2010.	\$ 1,000,000	\$ -	\$ 429,728	\$ 570,272	\$ 184,501
Installment payable to Finance Company, 3.76% interest rate, payable in monthly installments of \$1,363, secured by equipment.	106,703	-	12,870	93,833	93,833

NOTE 8 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$994, secured by equipment.	82,997	-	9,184	73,813	73,813
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,607, secured by equipment.	126,712	-	14,206	112,506	112,506
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,465 secured by equipment.	114,249	-	13,010	101,239	101,239
Vested Employee Benefits (1)	<u>194,806</u>	<u>27,799</u>	<u>-</u>	<u>222,605</u>	<u>-</u>
TOTAL	<u>\$ 1,625,467</u>	<u>\$ 27,799</u>	<u>\$ 478,998</u>	<u>\$ 1,174,268</u>	<u>\$ 565,892</u>

The employee policies regarding the accumulation and payment of vested employee benefits are as follows:

Vacation – Maximum carry-forward is 10 days each year. Unused vacation pay will be paid at current rates at date of employment separation. \$34,403 was accrued at year end and recorded as a liability.

Sick Leave – A maximum of 114 days can be accumulated. Unused sick leave will be paid at current rates at date of separation to 75% upon retirement, 50% upon death, and 25% upon separation with 10 years seniority. \$188,202 was accrued at year end.

(1) The change in compensated absences is shown as a net addition.

Annual principal debt service requirements for the Notes Payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 565,892	\$ 33,163
2009	190,036	11,573
2010	<u>195,735</u>	<u>5,872</u>
Total	<u>\$ 951,663</u>	<u>\$ 50,608</u>

NOTE 9 - POST EMPLOYMENT BENEFITS

Total payments submitted on behalf of one retiree was \$1,000. Effective November 14, 2005, the Road Commission contributes for retired employees at age 62, 63, or 64 up to \$1,000 per year for hospital, medical, and life insurance purposes until the retiree reaches age 65 in accordance with Article 19, section 4 of the Labor Agreement negotiated with Teamsters Local 214.

NOTE 10 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. The amount of equipment advance for fiscal 2007 was \$114,509.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants for specific projects and purposes. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2007.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

NOTE 12 - CONTINGENT LOAN COMMITMENT

During fiscal 2007, the Commission executed a loan contract with the Michigan Department of Transportation to assist the Commission in financing transportation infrastructure improvements. The contract terms stipulated a loan amount not to exceed \$376,200 at a rate of interest of 4% per annum. The loan funds are restricted to use on specific projects only. Additionally, the agreement grants permission to the Michigan Department of Transportation to convert federal advanced construction funds, when available, to repay the loan principal amounts, with final repayment required by March 2010. If repayment is not paid by that date, the Michigan Department of Treasury is allowed to withhold monies from Michigan Transportation Funds in lieu of repayment. \$199,358 was owed at year end.

Required Supplementary Information

Alcona County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues – Budget and Actual For the Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Federal Sources	\$ 776,280	\$ 984,903	\$ 943,637	\$ (41,266)
State Sources				
Michigan Transportation Fund and Grants	2,798,835	3,092,155	3,239,747	147,592
Contributions from Local Units	873,300	1,154,921	1,155,221	300
Charges for Services	449,000	553,299	596,916	43,617
Interest and Rents	30,000	30,048	40,510	10,462
Other Revenue	<u>397,838</u>	<u>38,281</u>	<u>19,131</u>	<u>(19,150)</u>
Total Revenue	<u>\$ 5,325,253</u>	<u>\$ 5,853,607</u>	<u>\$ 5,995,162</u>	<u>\$ 141,555</u>

Alcona County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation	\$ 2,263,000	\$ 2,470,270	\$ 2,370,202	\$ 100,068
Maintenance	627,100	815,848	882,149	(66,301)
Local Road				
Preservation	391,000	442,685	389,493	53,192
Maintenance	1,047,000	1,228,341	1,249,836	(21,495)
State Trunkline Maintenance	447,000	495,000	461,981	33,019
Equipment Expense – Net	411,700	19,503	(1,364)	20,867
Administrative Expense – Net	322,200	334,576	319,262	15,314
Capital Outlay – Net	(357,000)	(276,770)	(275,616)	(1,154)
Debt Service				
Principal	299,700	477,940	478,998	(1,058)
Interest	38,727	45,641	45,945	(304)
Total Expenditures	5,490,427	6,053,034	\$ 5,920,886	\$ 132,148
Fund Balance – January 1, 2007	1,203,142	1,203,142		
Total Budget	\$ 6,693,569	\$ 7,256,176		

Alcona County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 4,092,166	\$ 1,271,876	\$ 631,120	\$ 5,995,162
Total Expenditures	<u>3,713,063</u>	<u>1,765,060</u>	<u>442,763</u>	<u>5,920,886</u>
Excess of Revenues Over (Under) Expenditures	379,103	(493,184)	188,357	74,276
Optional Transfers In (Out)	(422,867)	422,867	-	-
Other Transfers	-	70,317	(70,317)	-
Fund Balance – January 1, 2007	<u>873,874</u>	<u>-</u>	<u>254,992</u>	<u>1,128,866</u>
Fund Balance – December 31, 2007	<u>\$ 830,110</u>	<u>\$ -</u>	<u>\$ 373,032</u>	<u>\$ 1,203,142</u>

Alcona County Road Commission

Analysis of Revenues For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 10,890	\$ 10,890
Federal Sources				
Surface Transportation Program	733,171	-	-	733,171
High Priority	210,466	-	-	210,466
State Sources				
Michigan Transportation Fund				
Engineering	6,000	4,000	-	10,000
Urban Road	54,358	17,930	-	72,288
Allocation	1,409,558	964,006	-	2,373,564
Snow Removal	21,290	-	-	21,290
Forest Road	139,842	-	-	139,842
Rural Primary	384,567	-	-	384,567
Jobs Today	238,196	-	-	238,196
Contributions from Local Units				
Township	874,518	267,403	-	1,141,921
Other	-	13,300	-	13,300
Charges for Services				
State Trunkline	-	-	592,234	592,234
Salvage Sales	-	-	3,829	3,829
Other	-	-	853	853
Interest and Rents	18,827	4,881	16,802	40,510
Other Revenue				
Insurance Recoveries	1,373	356	814	2,543
Miscellaneous	-	-	5,698	5,698
Total Revenue	\$ 4,092,166	\$ 1,271,876	\$ 631,120	\$ 5,995,162

Alcona County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 2,370,202	\$ -	\$ -	\$ 2,370,202
Maintenance	882,149	-	-	882,149
Local Road				
Preservation	-	389,493	-	389,493
Maintenance	-	1,249,836	-	1,249,836
State Trunkline Maintenance	-	-	461,981	461,981
Equipment Expense – Net	(386)	(668)	(310)	(1,364)
Administrative Expense – Net	212,269	106,993	-	319,262
Capital Outlay – Net	(245,464)	(810)	(29,342)	(275,616)
Debt Service				
Debt Principal Payments	455,842	15,273	7,883	478,998
Interest Expense	<u>38,451</u>	<u>4,943</u>	<u>2,551</u>	<u>45,945</u>
Total Expenditures	<u>\$ 3,713,063</u>	<u>\$ 1,765,060</u>	<u>\$ 442,763</u>	<u>\$ 5,920,886</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Alcona County Road Commission
301 N. Lake Street
Lincoln, Michigan 48742

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Alcona County Road Commission as of and for the year ended December 31, 2007, which collectively comprise the Alcona County Road Commission's basic financial statements and have issued our report thereon dated May 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alcona County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alcona County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 07-1, 07-2, and 07-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alcona County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Alcona County Road Commission in separate letter dated May 1, 2008.

Alcona County Road Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Alcona County Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Commissioners, others within the Commission, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 1, 2008

Internal Control Over Financial Statements

Segregation of Duties

Finding 07-1

Condition/Criteria: The accountant performs several functions of receipting, disbursing, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Planned Corrective Action: The board has implemented compensating controls to reduce the risks discussed above.

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 07-2

Condition/Criteria: Our examination of procedures used by the county road to adopt and maintain operating budgets for the county road's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's 2007 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2007 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 28 of the financial statements.

Effect: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Cause: Unknown.

Recommendation: We recommend that the county road's chief administrative officer (manager) and personnel responsible for administering the activities of the various funds of the county road, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Planned Corrective Action: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Inability of Management to Prepare the Financial Statements in Accordance
with Generally Accepted Accounting Principles

Finding 07-3

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112.

Condition/Criteria: Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements necessary to monitor and report annual and interim financial activity without auditor intervention. Personnel responsible for financial reporting are not monitoring and reporting interim or annual financial activity without auditor intervention for purposes of GASB Statement Number 34.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting to comply with reporting provisions of GASB Statement Number 34.

Cause: Unknown.

Recommendation: The Commission should review and implement the necessary education and procedural activities to monitor and report annual financial activity or outsource this function.

Planned Corrective Action: As a result of the limited funding, the Commission does not have resources to fund this process.

- Contact Person(s) Responsible for Correction:
Ron Young, Manager

Compliance and Other Matters

State Infrastructure Bank Loan (SIB)

Finding 06-3

Statement of Condition/Criteria: The Commission executed and SIB Loan with the Michigan Department of Transportation. The Commission also did not expend the entire loan proceeds on the specific project due to alternate funding sources.

Effect: Unexpended funds may have to be repaid to the SIB or authorized for another qualifying project.

Cause of Condition: Alternate funding sources from the State and Federal government reduced the utilization of loan proceeds. Actual project costs were less than the estimates used for the loan application.

Recommendation: The Board should contact the SIB for direction on remitting or redirecting the remaining loan proceeds of approximately \$191,000.

Corrective Action/Management's Response: Management has informed the SIB and is working with the department on remitting excess loan proceeds.

Status: Corrected.

Contact:

Ron Young, Manager

Date of Corrective Plan:

June 2007

Alcona County Road Commission

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation:				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT)				
Ritchie Rd from Hubbard Lake Rd to Lincoln Village	20.205	HPSL 0601(311)	77463	\$ 210,466
F-30 from F-41 East to Wice Road	20.205	EBSL 0701(005)	48320	174,803
Mt. Maria Road to Alcona Township line	20.205	STP 0701(006)	82748	201,528
Hubert Road from Bear Springs Road	20.205	STP 0701(004)	83692	184,691
Mt. Maria Road to Hawes Township line	20.205	STP 0701(007)	77755	<u>172,149</u>
Subtotal MDOT Administered				<u>943,637</u>
Total U.S. Department of Transportation:				<u>946,637</u>
Total Expenditures of Federal Awards				<u><u>\$ 943,637</u></u>



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board of County Road Commissioners
Alcona County Road Commission
Lincoln, MI 48742

We have audited the financial statements of the Alcona County Road Commission as of and for the year ended December 31, 2007, and have issued our reports thereon dated May 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 8, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Alcona County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Alcona County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our memorandum about planning matters on April 16, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Alcona County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2007. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. A copy of any adjustments are available from management.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 1, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Infrastructure Reporting: (Prior)

The Commission should adopt a capitalization threshold for recording infrastructure amounts of \$5,000 or \$10,000 in accordance with GASB requirements.

Status: Corrected.

Parts Management (Prior)

Cogitate software utilized by the Commission, has a parts management module which would assist in the purchasing, inventory, and usage reporting, of parts and other nonstock inventory items. Implementation of this software would increase internal control over parts management and eliminate redundant inventory procedures currently in practice. We strongly recommend the implementation of inventory software.

Status: The Commission anticipates implementation of the inventory software.

Post Employment Liability (Prior)

GASB 45 will require the calculation of post employment benefit obligation starting in fiscal 2009. The Commission should consider calculating this liability and begin the process of funding this future liability.

Fraud Policy (Prior)

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Status: Corrected.

Seal Coat Infrastructure (Prior)

The County Road Bulletin was amended during 2006 and includes a revised definition for capitalization of seal coat roads. Generally, seal coat roads should be charged to maintenance activities rather than capitalized as preservation activities. The Commission should review the definitions contained in the manual and remove seal coat roads from its infrastructure records as appropriate.

Status: Corrected.

Old State Receivable (Prior)

\$5,400 remains uncollected in an old receivable. If this amount is not collected it should be charged out.

Status: Corrected.

Sick Pay Liability (Prior)

Due to implementation of GASB 47 – Accounting for Termination Benefits, Sick Pay should be based upon the 75% payout termination benefit.

Status: Corrected.

Payroll (Prior)

During our review of timesheets, some employees timesheets are not approved by the foreman and foreman timesheets are not approved at all. The Board may want to implement procedures for approval of all timesheets prior to payment.

Status: Corrected.

Purchasing Procedures

Although the Board has adopted provisions of “state bid” procedures, a formalized bid documentation policy should be considered. Sample procedures are available in the County Road Bulletin published by the Michigan Department of Treasury.

Policy and Procedure Manual

The Accounting Procedures Manual for Local Units of Governments and the Uniform Accounting Procedures Manual for County Road Commissions were recently updated by the Michigan Department of Treasury. These bulletins contain several policies and procedures which the Commission should review and implement as appropriate. The Commission policy and procedures have not been updated to incorporate the changes recommended in the state manuals.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Alcona County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should no be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

**Anderson, Tackman & Company, PLC
Certified Public Accountants**

May 1, 2008